# CHAPTER 1 – INTRODUCTION

Iran's Privatization plan was launched in late 1980s, only a decade after massive renationalization program which makes the Iran's experience unique. The reverse strategy through privatization was due to firms' inefficiency and their increasing dependency to government subsidies.

The world wide initial enthusiasm for privatizing the firms was based on this belief that companies in hands of private sector are superior to a government hand (see, for example, Shleifer, 1998; Dewenter and Malatesta, 2001). After the overwhelming success of the Thatcher government experience this interest was emerged and many countries have since engaged in privatization of SOEs. However, this enthusiasm also spread to universities, private and other institutions to study various aspects of this circumstance.

Empirical evidence provided by Megginson et al. (1994), Boardman and Vining (1989), (Choi, et al., 2010), and others, suggest that private firms are more efficient after initial share issue privatization, either in their short or long run experience. Some of these papers examine data from single-country, single-industry or small number of individual firms and the others employ multi-industry or multi-national samples. Nevertheless, Wortzel and Wortzel (1989), Caves and Christensen (1980), Kole and Mulherin (1997) and Patricia Bachiller (2009) in their studies support this idea that government linked companied could act as efficient as private owned firms. They point out several factors which had small relation with privatization but affect the performance. In fact, in privatization program a government due to several considerations usually keeps possessions of the controlling shares of SOEs and seldom sells all to private sector. There may be legal constraint of the country behind that, as suggested by Bortolotti et al. (2002) or political reasons, as found by Perotti and Biais (2002). Partial ownership retained by government can have a positive effect even for economic reasons. The model suggested by Perotti (1995) shows that governments dispose a smaller portion of SOEs to privatize at the beginning. Hence, the market may receive this signal that the government not going to confiscate shareholders' wealth when the controlling stake of the privatized SOEs is held in state hands. In privatized SOEs through SIPs, a positive relationship was found between the stock returns and government ownership as showed in a study conducted by Boardman and Laurin (2000).

In this paper, we test two group of private and government linked companies of Iran over the before and after listing period. Anyhow, in addressing these essential questions that does the privatization improves firms' performance and are state owned enterprises necessarily inefficient, Iran's government linked companies provide a considerable case.

In view of questioning the truth or validity of such debate, we think this study can clear up these issues and adds value to the previous findings. By the way, in this study we made several comparisons; at first we compare the GLCs pre-listing performance measures with those of their post-listing to find if there is any improvement after listing.  Then, we compare GLCs with Non-GLCs matched by listing period, market-average and industry-average on the basis of before and after SIP performance indicators to find if there is any considerable enhancement. The results report significant improvement in GLCs performance following SIP in terms of profitability, efficiency and output; although, significant decrease in leverage. However, when we compare before and after listing performance proxies of GLCs against of those in non-GLC; no evidence were found that GLCs underperform the non-GLCs except for the efficiency which show lower for GLCs as long as controlled for GDP. Using stocks returns data, we found no evidence that the GLCs' stocks underperform the Non-GLCs' in their returns. This indicated that the market investors don't discriminate between GLCs and Non-GLCs stocks. Hence, we conclude that the GLCs performance is as well as private companies after SIP. This capability could be because of the well-functioning of GLCs. even so, the lack of Iran's market openness to intense foreign competition of capital markets is an important factor that must be considered. Nevertheless, share issue privatization (SIP) has positive impact on GLCs and improves profitability, efficiency, and output.

The remaining parts are arranged as follows: Chapter 2 presents concise literature about privatization. Chapter 3 explains the method which is employed in study, the hypotheses development and the data structure which is used for test. Chapter 4 explains and interprets the outcomes. Finally, the inferences and suggestions for future studies are presented in Chapter five.